



Yaffle Connects

Buying-In: How Values- Based Procurement Can Help Build Healthy Local Economies

Presentation by Ron Johnson &
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Buying-In:

How Values-Based Procurement Can Help Build Healthy Local Economies

Large institutions have big purchasing power. What if these institutions used that purchasing power to further their social and economic impact on the region they serve? Eastern Health recently embarked on a “value-based procurement strategy” that seeks innovative ways for enhancing outcomes for both patients and local businesses.

Ron Johnson (Vice President, Information Services & Rural Health) and Deanne Piercey (Associate Director, Strategic Procurement, Financial and Administrative Services, Memorial University of Newfoundland) joined us on October 28th, 2019, to examine the potential opportunities, benefits and practicalities of value-based procurement approaches.

SESSION SYNOPSIS:

Mr. Johnson takes a look at the changes that Eastern Health’s procurement system has undergone, going from a system that bought as many resources for as little cost as possible to one that procures resources based on their value. This new system involves open discussion with vendors and encourages long-term partnerships between companies.

NL has already partnered with several international companies under this system to get better healthcare in the province, and, as well as helping medically, these partnerships have created local jobs and hold the promise to create even more.

Ms. Piercey explains more closely the previous and current procurement systems. Before the change to value-based procurement, obtaining resources was a long and complicated process with many obstacles to improvement. Now, however, the ability to have conversations with vendors means it is much easier to get the product or

service with the highest value. This system, like the partnerships, also benefits NL's economy by letting healthcare providers prioritize smaller, local vendors.

[WATCH THE ENTIRE PRESENTATION HERE](#)

KEY TAKEAWAYS:

Paraphrasing comments from Mr. Johnson and Ms. Piercey

Ron Johnson

- Eastern Health is a massive player in NL's economy with a budget of over a billion dollars, facilities all over the province, and the capacity to cover many forms of healthcare; with the rising costs of healthcare, Eastern Health is looking at spending as an asset rather than an expense.
- Eastern Health started instituting procurement (how goods and services are sourced and bought) based on maximizing value (desired outcome divided by required cost, how expensive it is to achieve a result); this system assures that both parties get something out of the exchange.
- Previously, the procurement system was based on aggregating as many resources as possible for the lowest price; however, while spending went down, relationships with vendors worsened since they weren't profiting from their sales.
- The NL government implemented the Public Procurement Act, a policy moving toward value-based procurement in healthcare. This system involves open conversation with potential partners, instead of coming up with long, complicated contracts ahead of time.

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- Eastern Health has used this value-based procurement in four circumstances: (1) partnering with an Irish company to improve the system of blood-drawing in NL; (2) buying an outcome (paying for all the costs associated with achieving a result, not just buying a particular resource) of better diabetes management in St. Mary's Bay; (3) working with a New Zealand company to better screen for cancer; and (4) partnering with IBM to get better mental health care for workers. All of this to say that these successes could only come with discussions and partnerships, instead of buying products as cheaply as possible. These four services are creating local jobs; partners are coming here from all over the world because NL has a flexible system that can be scaled to be used anywhere else.
 - Eastern Health uses partnerships to incentivize medical innovation; they awarded ten contracts after two open calls for collaborators.
 - They also had a conference with their partners to discuss their progress and matched companies in Israel with companies in NL to work on cybersecurity in healthcare; they also determined that they will have made over a hundred full-time jobs with this type of procurement.
 - Value-based procurement can even change food security, by investing in farmland ahead of harvest time, which could grow the agricultural sector.

Deanne Piercey

- The old Public Tender Act was very restrictive and difficult to navigate: you needed to know exactly what you wanted without being able to ask around; you needed to award contracts to the cheapest vendor; requests for proposal (RFPs) required cabinet approval and took 18 months to process. It worked for basic supplies like bandages or gauze, but was very ineffective for more complex technology or systems.
- In March 2018, the Public Procurement Act was put in place, which allows for procurement of up to \$2500 worth of products without any paperwork, among many other things.

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- Clients can do RFPs without considering cost, just looking for a product; this is helpful when they don't know exactly what they want, since they can talk to a vendor and see what they can offer to fix the given problem. With this new act, clients can negotiate with vendors; they're not fixed to a set price or product.
 - Eastern Health now has the right to allocate money to local vendors, which is in line with their interests in growing the local economy. They can prioritize local partners as well as help groups that can't break into a cost-competitive market; they can also take environmental effects.
 - Sometimes the lowest-priced contract doesn't always end up being the cheapest; extra costs, a difficult vendor, or renegotiations can all cause more spending on a project.
 - Clients have the right to score vendors and allow or disallow them to bid, which means they don't just have to look at the price when considering a resource.

QUESTION AND ANSWER PERIOD:

Paraphrasing Mr. Johnson's and Ms. Piercey's responses

Q: WHAT GROUPS ARE UNDERREPRESENTED, AND HOW DO THEY COMPARE TO OTHER GROUPS?

Deanne: It depends on who goes out to source the service. MUN, for example, has a checklist, so they can prioritize what matters to them (e.g. local vendors, sustainability).

Ron: I went out to a local farm that sells to stores, and it was difficult to engage the farmer in conversation about selling somewhere else because he didn't want to change

sale partners; private multinational partners take RFPs and send them to local groups, which involves them in the market.

Q: SOME VALUES ARE DEPARTMENT-SPECIFIC, SO ARE THE PROVINCE'S VALUES AS A WHOLE TAKEN INTO CONSIDERATION WHEN SPENDING MONEY? IF SO, HOW DO YOU FRAME THEM IN PROCUREMENT, AND HOW COULD THAT WORK AT THE MUNICIPAL LEVEL?

Ron: All health facilities have a strategic plan that's directly tied in with the government, which is used for all decision-making, so the province's values are already in the policies; towns can refer to the same governmental plans.

Deanne: RFPs have to be used at the right time; not everything requires one--they work best for more novel solutions.

Q: HOW DO YOU MAKE THE CASE THAT STRATEGIC PROCUREMENT IS NOT FAVORITISM?

Ron: Even though there is a lot of money involved in Eastern Health, no one has ever taken issue with the new strategy; they've been very transparent in what they're doing, hosting events with local/international vendors and academia. This process is also a lot more defensible than the last one: it reduces spending in massive numbers, helped by hiring experts to achieve a specific outcome.

Deanne: Sometimes it's better to buy more expensive things so we can get more use out of them; it's important to look at total value and let the expert do their job.

Q: IS THERE ANYTHING BEING DONE TO HELP THE LOCAL COMMUNITY MANAGE THE SHIFT TO STRATEGIC PROCUREMENT SO THEY'RE STILL COMPETITIVE WITH LARGER COMPANIES?

Deanne: Vendor communication is really important: we have to be open with vendors; the Public Procurement Act also has to educate vendors in how to respond to requests,

but local vendors are usually the best at that. Bigger ones often use a cookie cutter model, while smaller ones know what questions to ask during negotiations.

Ron: The local community didn't like the aggregation technique since they were providing resources to the larger healthcare system outside the bounds of the normal transaction and then they were pushed aside; we explained the PPA to the local vendors and they liked that they could be involved with coming to solutions. Now, we can ask to prioritize local vendors, and even have a stipulation to keep research in-province.

Q: FOR EMPLOYEES WHO DO OR FACILITATE PURCHASING, ARE THEIR TOOLS FOR THEM TO GET GUIDANCE ON THESE POLICIES?

Deanne: There are policies online that are very helpful in this process, since legislation is very tight and you have to keep within the laws.

Ron: We talked to the University of Tennessee because they have a history of knowing how to do procurement; they know how to whittle down potential partners through trust and compatibility assessments, which are very effective at building a relationship. You tell the partner what you need and the partner tells you what they can do.

CLOSING COMMENTS: WHAT ARE THE POTENTIAL OPPORTUNITIES TO TAKE THESE IDEAS AND USE THEM GOING FORWARD?

This is a good opportunity to communicate this strategy to colleagues and shift toward doing more research and having a conversation first. As a town, we can optimize the value of our desired outcome per dollar and focus on other town interests, incentivize local sources, have a conversation in a municipal context. In a university environment, procurement is decentralized, so seeing this system brings home the point that more training is needed in RFP use.